

EAST SIDE CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware

FINANCIAL STATEMENTS

June 30, 2005

EAST SIDE CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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Independent Auditors' Report

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August 4, 2005

Board of Directors
East Side Charter School
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of East Side Charter School, Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of East Side Charter School as of June 30, 2004 were audited by other auditors, whose report dated August 27, 2004 expressed an unqualified opinion on those financial statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Because of the inadequacies in the School's accounting records regarding SuperCard transactions, we were unable to form an opinion regarding a significant portion of the School's expenses and/or expenditures in the accompanying government-wide and fund financial statements.

In our opinion, except for the effects on the basic financial statements of such adjustments, if any, as might have been determined to be necessary had the SuperCard expenses and/or expenditures been susceptible to satisfactory audit tests, the basic financial statements referred to

Board of Directors
East Side Charter School

in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of East Side Charter School as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 8 and page 25, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Side Charter School's basic financial statements. The additional information on pages 26 and 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

**Management's Discussion
and Analysis Section**

**EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005**

This section of East Side Charter School's ("East Side") basic financial statements presents East Side's discussion and analysis of its financial performance and provides an overview of East Side's financial activities for the year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- East Side's net assets increased \$89,590, or 32.1 percent.
- Instructional services increased by \$52,425, or 4.6 percent, over 2004 due to the increase in teachers' salaries and benefits.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are organized so that the reader can understand East Side as a whole, and then proceed to provide an increasingly detailed look at specific financial activities at East Side's fund level. The financial section of this report consists of the basic financial statements and the notes to the financial statements.

REPORTING ON THE SCHOOL AS A WHOLE

Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about East Side as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report East Side's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether East Side's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment, growth and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING EAST SIDE'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Analysis of East Side's major funds and fund financial statements begins on page 12 and provides detailed information about the funds, not East Side as a whole. Some funds are required to be established by State statute, while other funds are established by East Side to help manage money for particular purposes and compliance with various grant provisions. East Side's two types of funds, governmental and fiduciary, use different accounting methods as further described in the notes to the financial statements.

EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005

REPORTING EAST SIDE'S MOST SIGNIFICANT FUNDS (continued)

Governmental Funds

Most of East Side's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of East Side's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements on page 13 and on page 15. The reconciling differences include activity related to capital assets and compensated absences.

Fiduciary Funds

East Side is trustee for funds raised by student/parent groups. The funds can be used only for student activities and are reported in a separate Statement of Fiduciary Net Assets - Agency Fund on page 16. These funds are excluded from East Side's other financial statements because the assets cannot be utilized by East Side to meet its obligations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of East Side, assets exceeded liabilities by \$368,879 at June 30, 2005. The largest portion of East Side's total assets is cash and equivalents (78.3 percent) and capital assets net of depreciation (13.1 percent). East Side uses capital assets to provide services; consequently, these assets are not available for future spending. East Side's investment in its capital assets is reported net of related debt, and currently, East Side has no debt obligation. However, it should be noted that resources needed to repay any obligation must be provided from other sources, since the capital assets themselves cannot be used to liquidate such obligations.

A comparative analysis of fiscal year 2005 to 2004 follows:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and other assets		
Current assets	\$ 416,889	\$ 270,555
Capital assets, net of depreciation	62,998	87,212
Total Assets	<u>479,887</u>	<u>357,767</u>
Liabilities		
Current liabilities	80,608	53,793
Long-term liabilities	30,400	24,685
Total Liabilities	<u>111,008</u>	<u>78,478</u>
Net assets		
Invested in capital assets, net of debt	62,998	87,212
Unrestricted	305,881	192,077
Total net assets	<u>\$ 368,879</u>	<u>\$ 279,289</u>

The unrestricted balance of net assets may be used to meet East Side's ongoing activities. East Side is able to report a positive balance in net assets both for the government as a whole and for its separate governmental-type activities, which resulted in an increased cash balance due to an increase in cash receipts over expenditures.

EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
General revenues:		
Charges to school districts	\$ 288,445	\$ 309,909
State aid	654,626	677,864
Earnings on cash and equivalents	7,187	3,419
Miscellaneous		
Total general revenues	<u>950,258</u>	<u>991,192</u>
Program revenues:		
Charges for services	155,080	138,021
Operating grants and contributions	455,772	312,400
Capital grants and contributions	35,000	66,000
Total program revenues	<u>645,852</u>	<u>516,421</u>
Total revenues	<u>1,596,110</u>	<u>1,507,613</u>
Expenses		
Instructional services	1,180,144	1,127,719
Supporting services:		
Operation and maintenance of facilities	66,955	57,175
Transportation	80,296	75,474
School food services	54,425	71,990
Before and After School Program	15,844	23,959
Kindergarten Readiness	83,833	37,437
Depreciation - unallocated	25,023	24,415
Total expenses	<u>1,506,520</u>	<u>1,418,169</u>
Change in net assets	<u>\$ 89,590</u>	<u>\$ 89,444</u>

Governmental Activities

Net assets of East Side's governmental activities increased by \$89,590, and unrestricted net assets reflect a positive balance of \$305,881.

The statement of activities shows the cost of program services and charges for services and grants offsetting those services. Operating grants and contributions increased by \$143,372 as a result of receiving more federal funds and operating grants in the current fiscal year. The School has been obtaining additional grants to help offset the costs of the School. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues which include charges to school districts, state aid, and cash and equivalents earnings must support the net cost of East Side's programs.

	<u>Services</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental activities				
Instructional services	\$1,180,144	\$ (718,372)	\$1,127,719	\$ (848,819)
Supporting services:				
Operation and maintenance of facilities	66,955	(66,955)	57,175	8,825
Transportation	80,296	(80,296)	75,474	(75,474)
School food services	54,425	5,825	71,990	(3,312)
Before and After School Program	15,844	9,136	23,959	(4,458)
Kindergarten Readiness	83,833	15,017	37,437	45,905
Depreciation-unallocated	25,023	(25,023)	24,415	(24,415)
Total expenses	<u>\$1,506,520</u>	<u>\$ (860,668)</u>	<u>\$1,418,169</u>	<u>\$ (901,748)</u>

The reliance on general revenues to support governmental activities is indicated by the net cost column reflecting the need for \$860,668 of support from general revenues which comprise 59.6 percent of total revenues. The increase in instructional services expense as a result of an increase in personnel costs and health benefits.

EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005

THE SCHOOL'S FUNDS

East Side's governmental funds (as presented on the balance sheet on page 12) reported a combined fund balance of \$336,281, which represents an increase of 55.1 percent over last year's total of \$216,762. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Fund balance	<u>\$ 336,281</u>	<u>\$ 216,762</u>	<u>\$ 119,519</u>

General Fund

East Side's general fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities in the general fund.

	<u>Amounts</u>		<u>Increase/ (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Dollars</u>	<u>Percent</u>
Revenues				
State aid	\$ 654,626	\$ 677,864	\$ (23,238)	(3.43)
Charges to school districts	288,445	309,909	(21,464)	(6.92)
Federal aid	235,153	200,529	34,624	17.27
Earnings on cash and equivalents	7,187	3,419	3,768	110.21
Program Services	109,748	147,237	(37,489)	(25.46)
Other, including donations	265,951	102,655	163,296	159.07
Total	<u>\$1,561,110</u>	<u>\$1,441,613</u>	<u>\$ 119,497</u>	<u>8.29</u>

Analysis of Revenues

The increase in revenues was due to an increase in grants received in 2005 as a result of the School obtaining additional grants to help offset the costs of the School. Enrollment stayed the same but the state revenue decreased \$141 per enrollment.

	<u>Amounts</u>		<u>Increase/ (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Dollars</u>	<u>Percent</u>
Expenditures				
Current:				
Instructional services	\$1,165,231	\$1,116,640	\$ 48,591	4.35
Supporting services:				
Operation and maintenance of facilities	66,955	57,175	9,780	17.10
Transportation	80,296	75,474	4,822	6.39
School food services	54,425	71,990	(17,565)	(24.40)
Before and After School Program	15,844	23,959	(8,115)	(33.87)
Kindergarten Readiness	83,833	37,437	46,396	123.94
Capital outlay	5,707	6,166	(459)	(7.44)
Total expenditures	<u>\$1,472,291</u>	<u>\$1,388,841</u>	<u>\$ 83,450</u>	<u>6.01</u>

Analysis of Expenditures

Instructional and supporting services increased due to the increase in personnel costs and health benefits.

Financial Performance

Overall, revenues were more than expenditures in 2005 resulting in an increase to fund balance. This was due primarily from an increase in grants. East Side has sufficient fund balance to meet its obligations as they arise. The School Board has designated a fund balance of \$100,000 for contingencies.

EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005

THE SCHOOL'S FUNDS (continued)

East Side Enrollment

Enrollment of students in all grades was 144 at the end of fiscal years 2005 and 2004. East Side has been successful in attracting students from as far away as Middletown, Bear and New Castle, Delaware. We maintain a waiting list for each grade level. We ended the year with 56 students on our waiting list. This is after registering a full student load for next year.

Staffing

East Side had nine teachers and one aide at the end of fiscal years 2005 and 2004. The School maintains a 14:1 student-teacher ratio as prescribed in the school charter.

Lease Arrangement with Wilmington Housing Authority

East Side Charter School entered into a three-year leasing arrangement with the Wilmington Housing Authority commencing September 1, 2001 and ending August 31, 2004. A one-year extension has been exercised.

The following table summarizes general fund expenditures by natural classification, or object code.

Expenditures by object	Amounts		Increase/ (Decrease)	
	2005	2004	Dollars	Percent
Salaries	\$ 749,715	\$ 714,660	\$ 35,055	4.91
Employment Costs	262,092	239,345	22,747	9.50
Travel	18,846	13,898	4,948	35.60
Contracted Services	91,394	85,315	6,079	7.13
Communication	7,110	7,830	(720)	(9.20)
Public Utility Services	9,210	7,449	1,761	23.64
Insurance	17,885	15,466	2,419	15.64
Transportation - buses	80,296	75,474	4,822	6.39
Land/Building/Facilities	32,465	18,220	14,245	78.18
Repairs and Maintenance	7,395	14,817	(7,422)	(50.09)
Other Contracted Services	103,201	98,777	4,424	4.48
Supplies and Materials	71,198	57,939	13,259	22.88
Operating Supplies	11,784	31,994	(20,210)	(63.17)
Computer/Word Processing/Software	3,351	1,491	1,860	124.75
Miscellaneous	642	...	642	100.00
Capital Outlay	5,707	6,166	(459)	(7.44)
Total	\$1,472,291	\$1,388,841	\$ 83,450	6.01

Salaries and employment costs increased due to cost of living adjustments and benefit costs increases. Travel increased because of offsite seminars and meetings. Contracted services increased from 2004 levels due to services being rendered by independent contractors.

GENERAL FUND BUDGET INFORMATION

Budgets are presented on the modified accrual basis of accounting for the general fund. Budgets are not adopted for the capital projects and student activity funds. Annual appropriations lapse at year end with the exception of those indicated as fund balance reserves. There were no changes between the original budget and the final budget of East Side. The School does not have a detail budget for certain line items; instead the budget is shown in one combined budget amount as contracted services, and the actual amounts are charged to separate expenditure accounts.

EAST SIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2005

CAPITAL ASSETS

East Side has \$62,998 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$809, and depreciation was \$25,023. The majority of the acquisitions were for equipment. Detailed information regarding capital assets activity is included in the notes to the financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

East Side Charter School has acquired a new site at 3000 North Claymont Street, Wilmington, Delaware. The building is formally known as the Martin Luther King School. The lot dimensions are 1014 feet x 371 feet for an approximate acreage of 8.64. The building is a three-level 57,615 square-foot structure built in 1960 with additions in 1973 and renovations made in 2004. It previously (until June 2005) housed Colonial School District students. The building is suited for 550 students but will be used for about 250 students including kindergarten readiness students who are not part of the charter during the 2005-2006 school year. The building was returned to the City of Wilmington in 2005, and the City leases the building to East Side Charter School for a token amount of \$1.00. The increased population of students (from 144 to 192) will necessitate an increase in staff. The increase in building size will necessitate an increase in custodial staffing and building maintenance. These additional costs are expected to be offset by increased funding from the state for enrollment counts, funds from leasing parts of the building, income from kindergarten readiness and the increased funding from full-day kindergarten funding.

East Side is proud of the fact that we have received our third charter renewal from the State of Delaware. This newest charter will run for five years with the next renewal coming in 2010. This year we will add a third kindergarten class, a second 1st grade class, and a second 2nd grade class while extending our enrollment to the 7th grade for the first time. The increased enrollment and increased square footage will allow us to add additional programs such as a full music program, art and even physical education with our fully functional gymnasium.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of East Side's finances and to show East Side's accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at (302)762-5834.

Basic Financial Statements Section

EAST SIDE CHARTER SCHOOL
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

ASSETS	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and equivalents	\$ 375,824	\$ 236,627
Accounts receivable	15,201	7,347
Due from other governments	<u>25,864</u>	<u>26,581</u>
Total current assets	<u>416,889</u>	<u>270,555</u>
NONCURRENT ASSETS		
Capital assets, net of depreciation	<u>62,998</u>	<u>87,212</u>
TOTAL ASSETS	<u>479,887</u>	<u>357,767</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	21,297	14,717
Accrued salaries and related costs	57,718	39,076
Deferred revenue	<u>1,593</u>	<u>...</u>
Total current liabilities	<u>80,608</u>	<u>53,793</u>
NONCURRENT LIABILITIES		
Compensated absences liability	<u>30,400</u>	<u>24,685</u>
TOTAL LIABILITIES	<u>111,008</u>	<u>78,478</u>
NET ASSETS		
Invested in capital assets, net of related debt	62,998	87,212
Unrestricted	<u>305,881</u>	<u>192,077</u>
TOTAL NET ASSETS	<u>\$ 368,879</u>	<u>\$ 279,289</u>

The accompanying notes are an integral part of the basic financial statements.

Functions	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 1,180,144	\$...	\$ 426,772	\$ 35,000	\$ (718,372)
Supporting services:					
Operation and maintenance of facilities	66,955	(66,955)
Transportation	80,296	(80,296)
School food services	54,425	60,250	5,825
Before and After School Program	15,844	24,980	9,136
Kindergarten Readiness	83,833	69,850	29,000	...	15,017
Depreciation-unallocated	25,023	(25,023)
Total Charter School	\$ 1,506,520	\$ 155,080	\$ 455,772	\$ 35,000	(860,668)
GENERAL REVENUES					
Charges to school districts					288,445
State aid not restricted to specific purposes					654,626
Earnings on cash and equivalents					7,187
Miscellaneous					...
Total general revenues					950,258
CHANGE IN NET ASSETS					89,590
NET ASSETS					
Beginning of year					279,289
End of year					\$ 368,879

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EAST SIDE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions	Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				Total Governmental Activities
Instructional services	\$ 1,127,719	\$...	\$ 278,900	\$ (848,819)
Supporting services:				
Operation and maintenance of facilities	57,175	...	...	8,825
Transportation	75,474	...	66,000	(75,474)
School food services	71,990	68,678	...	(3,312)
Before and After School Program	23,959	14,501	5,000	(4,458)
Kindergarten Readiness	37,437	54,842	28,500	45,905
Depreciation-unallocated	24,415	...	...	(24,415)
Total Charter School	\$ 1,418,169	\$ 138,021	\$ 312,400	(901,748)
GENERAL REVENUES				
Charges to school districts				309,909
State aid not restricted to specific purposes				677,864
Earnings on cash and equivalents				3,419
Miscellaneous				...
Total general revenues				<u>991,192</u>
CHANGE IN NET ASSETS				89,444
NET ASSETS				
Beginning of year				<u>189,845</u>
End of year				<u>\$ 279,289</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL
BALANCE SHEETS - GOVERNMENTAL FUNDS
June 30, 2005 and 2004

	2005			2004		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
ASSETS						
Cash and equivalents	\$ 275,950	\$ 99,874	\$ 375,824	\$ 167,453	\$ 69,174	\$ 236,627
Accounts receivable	15,201	...	15,201	7,347	...	7,347
Due from other governments	25,864	...	25,864	26,581	...	26,581
TOTAL ASSETS	<u>\$ 317,015</u>	<u>\$ 99,874</u>	<u>\$ 416,889</u>	<u>\$ 201,381</u>	<u>\$ 69,174</u>	<u>\$ 270,555</u>
LIABILITIES						
Accounts payable	\$ 21,297	\$...	\$ 21,297	\$ 14,717	\$...	\$ 14,717
Accrued salaries and related costs	57,718	...	57,718	39,076	...	39,076
Deferred revenue	1,593	...	1,593	...	...	...
Total liabilities	<u>80,608</u>	<u>...</u>	<u>80,608</u>	<u>53,793</u>	<u>...</u>	<u>53,793</u>
FUND BALANCES						
Unreserved	136,407	99,874	236,281	47,588	69,174	116,762
Unreserved - Designated for contingencies	100,000	...	100,000	100,000	...	100,000
Total fund balances	<u>236,407</u>	<u>99,874</u>	<u>336,281</u>	<u>147,588</u>	<u>69,174</u>	<u>216,762</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 317,015</u>	<u>\$ 99,874</u>	<u>\$ 416,889</u>	<u>\$ 201,381</u>	<u>\$ 69,174</u>	<u>\$ 270,555</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEETS - GOVERNMENTAL FUNDS
TO STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - governmental funds	\$ 336,281	\$ 216,762
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$140,038 for 2005 and \$139,229 for 2004. The related accumulated depreciation is \$77,040 for 2005 and \$52,017 for 2004.	62,998	87,212
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(30,400)</u>	<u>(24,685)</u>
Total net assets - governmental activities	<u>\$ 368,879</u>	<u>\$ 279,289</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Years Ended June 30, 2005 and 2004

	2005			2004		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
REVENUES						
Charges to school districts	\$ 288,445	\$...	\$ 288,445	\$ 309,909	\$...	\$ 309,909
State aid	654,626	...	654,626	677,864	...	677,864
Federal aid	235,153	...	235,153	200,529	...	200,529
Earnings on cash and equivalents	7,187	...	7,187	3,419	...	3,419
School food services	60,250	...	60,250	68,678	...	68,678
Charges for services	49,498	...	49,498	79,558	...	79,558
Other local sources	261,951	...	261,951	75,440	...	75,440
Miscellaneous	4,000	35,000	39,000	26,216	66,000	92,216
Total revenues	<u>1,561,110</u>	<u>35,000</u>	<u>1,596,110</u>	<u>1,441,613</u>	<u>66,000</u>	<u>1,507,613</u>
EXPENDITURES						
Current:						
Instructional services	1,165,231	4,300	1,169,531	1,116,640	1,223	1,117,863
Supporting services:						
Operation and maintenance of facilities	66,955	...	66,955	57,175	...	57,175
Transportation	80,296	...	80,296	75,474	...	75,474
School food services	54,425	...	54,425	71,990	...	71,990
Before and After School program	15,844	...	15,844	23,959	...	23,959
Kindergarten Readiness	83,833	...	83,833	37,437	...	37,437
Capital outlay	5,707	...	5,707	6,166	17,424	23,590
Total expenditures	<u>1,472,291</u>	<u>4,300</u>	<u>1,476,591</u>	<u>1,388,841</u>	<u>18,647</u>	<u>1,407,488</u>
NET CHANGE IN FUND BALANCES	88,819	30,700	119,519	52,772	47,353	100,125
FUND BALANCES						
Beginning of year	147,588	69,174	216,762	94,816	21,821	116,637
End of year	<u>\$ 236,407</u>	<u>\$ 99,874</u>	<u>\$ 336,281</u>	<u>\$ 147,588</u>	<u>\$ 69,174</u>	<u>\$ 216,762</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENTS OF ACTIVITIES
Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$ 119,519	\$ 100,125
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
	<u>2005</u>	<u>2004</u>
Capital Outlays	\$ 809	\$ 17,425
Depreciation Expense	<u>25,023</u>	<u>24,415</u>
	(24,214)	(6,990)
In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased by \$5,715 for 2005 and \$3,691 for 2004.		
	<u>(5,715)</u>	<u>(3,691)</u>
Change in net assets - governmental activities	\$ <u>89,590</u>	\$ <u>89,444</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL
STATEMENTS OF FIDUCIARY NET ASSETS - AGENCY FUND
June 30, 2005 and 2004

	<u>Student Activities Fund</u>	
	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and equivalents	<u>\$ 7,494</u>	<u>\$ 10,835</u>
LIABILITIES		
Other current liabilities	<u>\$ 7,494</u>	<u>\$ 10,835</u>

The accompanying notes are an integral part of the basic financial statements.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Side Charter School ("East Side") have been prepared in conformity with generally accepted accounting principles as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of East Side are described below.

Reporting Entity

East Side was formed in 1997 as a §501(c)(3) tax-exempt corporation. East Side was established to provide a strong learning atmosphere and educational program to at-risk students. The School is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. East Side has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of East Side. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include charges to students who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis* of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts and state appropriations are recognized as revenues in the year for which they are earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, East Side considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when East Side receives cash.

East Side reports the following major governmental funds:

- The **general fund** is East Side's primary operating fund. It accounts for all financial resources of East Side, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within East Side.

Additionally, East Side reports the following fund type:

- The **agency funds** (fiduciary funds) account for assets held on behalf of student and parent groups.

Amounts reported as program revenues include 1) charges to students for special fees or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

East Side's cash and equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. East Side defines capital assets as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Furniture and equipment of East Side is depreciated using the straight-line method over their estimated lives ranging between five to 10 years. Leasehold improvements are depreciated using the straight-line method over the remaining life of the lease.

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Vacation - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is received when employees (a) qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 120 days, or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 120 days.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

NOTE 2 - CASH AND EQUIVALENTS

At June 30, 2005 and 2004, the School had a cash equivalent balance of \$383,318 and \$247,462, respectively. These funds are part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the years ended June 30 follows:

<u>Description</u>	<u>June 30, 2005</u>			
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Leasehold improvements	\$ 17,425	\$...	\$...	\$ 17,425
Furniture and equipment	121,804	809	...	122,613
Totals	139,229	809	...	140,038
Less accumulated depreciation:				
Leasehold improvements	2,904	3,484	...	6,388
Furniture and equipment	49,113	21,539	...	70,652
Totals	52,017	25,023	...	77,040
Total capital assets, being depreciated, net	\$ 87,212	\$ (24,214)	\$...	\$ 62,998
<u>Description</u>	<u>June 30, 2004</u>			
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Leasehold improvements	\$...	\$ 17,425	\$...	\$ 17,425
Furniture and equipment	121,804	...	...	121,804
Totals	121,804	17,425	...	139,229
Less accumulated depreciation:				
Leasehold improvements	...	2,904	...	2,904
Furniture and equipment	27,602	21,511	...	49,113
Totals	27,602	24,415	...	52,017
Total capital assets, being depreciated, net	\$ 94,202	\$ (6,990)	\$...	\$ 87,212

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations:

Description	Year Ended June 30, 2005				
	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
Governmental activity: Compensated absences	\$ 24,685	\$ 5,715	\$	\$ 30,400	\$

Description	Year Ended June 30, 2004				
	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
Governmental activity: Compensated absences	\$ 20,994	\$ 3,691	\$	\$ 24,685	\$

Compensated absences for governmental activities generally are liquidated by the general fund.

NOTE 5 - PENSION PLAN

School employees are considered State employees and are covered under the State's Multiple-Employee Pension Plan. The State contributed 7.44 percent for 2005 and 2004 of the State share of the employees' salary. East Side contributed the same percentages on the local share of the salary. The employees contribute 3.00 percent of salary in excess of \$6,000 per share up to social security maximum and 3.00 percent for any salary above social security maximum. Total pension cost is \$41,852 for 2005 and \$37,281 for 2004 (State share) and \$45,783 for 2005 and \$37,184 for 2004 (local share) is included in the financial statements. Of those amounts, \$5,639 and \$3,075 are due to the State's Pension office as of June 30, 2005 and 2004, respectively. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55 (reduced by 0.2% for each month under age 60)
 - b. 25 years service - any age (reduced by 0.2% for each month short of 30 years)
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the Office of Pensions' *Comprehensive Annual Financial Report*, which can be obtained from the Office of Pensions, McArdle Building, 860 Silver Lake Boulevard, Suite 1, Dover, Delaware 19904.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LEASING ARRANGEMENTS

The School leases its facilities and certain copier equipment under operating leasing arrangements expiring at various dates through calendar year 2008.

At June 30, 2005, the minimum future rental payments under non-cancelable operating lease arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2006	\$ 4,740
2007	4,740
2008	4,740
2009	<u>2,370</u>
Minimum future rental payments required	<u>\$ 16,590</u>

Total rental expense is \$30,616 for 2005 and \$32,425 for 2004.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. East Side does not anticipate losses from these transactions.

Grants Activity

East Side receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the General Fund. East Side's administration believes such disallowance, if any, would be immaterial.

Leasing Arrangements

As described in another note, East Side is committed to certain leasing arrangements.

NOTE 8 - RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - REQUIRED PRIMARY GOVERNMENT DISCLOSURES

The following are condensed government-wide financial statements as of and for the years ended June 30:

Description	2005	2004
	(in Thousands)	
Statement of Net Assets		
Current assets:		
Cash and equivalents	\$ 376	\$ 237
Accounts receivable, net	15	7
Due from primary government	26	27
Other current assets		
Total current assets	<u>417</u>	<u>271</u>
Noncurrent assets:		
Capital assets, net	63	87
Other noncurrent assets		
Total assets	<u>480</u>	<u>358</u>
Liabilities:		
Accounts payable	21	15
Accrued liabilities	58	39
Deferred revenues	2	...
Due to primary government	...	...
Current portion of long-term debt	...	...
Total current liabilities	<u>81</u>	<u>54</u>
Noncurrent liabilities:		
Compensated absences	30	25
Notes payable		
Total liabilities	<u>111</u>	<u>79</u>
Net assets:		
Invested in capital assets, net	63	87
Unrestricted	<u>306</u>	<u>192</u>
Total net assets	<u>\$ 369</u>	<u>\$ 279</u>
Statement of Activities		
Total expenses	\$ (1,506)	\$ (1,418)
Program revenues:		
Charges for services	155	138
Operating grants and contributions	29	33
Capital grants and contributions	35	66
Net (expense) revenue	<u>(1,287)</u>	<u>(1,181)</u>
General revenues:		
Payments from primary governments	1,370	1,267
Investment earnings	7	3
Miscellaneous		
Total general revenues	<u>1,377</u>	<u>1,270</u>
Change in net assets	90	89
Net assets - beginning of year	<u>279</u>	<u>190</u>
Net assets - end of year	<u>\$ 369</u>	<u>\$ 279</u>

EAST SIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - SUBSEQUENT EVENT

East Side Charter School has acquired a new site at 3000 North Claymont Street, Wilmington, Delaware 19802. The building was a former school used by Colonial School District which was returned to the City of Wilmington in 2005. The City leases the building to East Side for a token amount of \$1.00. Relocation was completed September 1, 2005. East Side's charter was modified to reflect the Delaware Department of Education's approval of this move with increases in enrollment each year through the 2009-2010 school year.

Required Supplemental Information Section

EAST SIDE CHARTER SCHOOL
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
Years Ended June 30, 2005 and 2004

	2005				2004			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Charges to school districts	\$ 261,020	\$ 261,020	\$ 288,445	\$ 27,425	\$ 347,030	\$ 347,030	\$ 309,909	\$ (37,121)
State aid	667,570	667,570	654,626	(12,944)	795,440	795,440	677,864	(117,576)
Federal aid	331,040	331,040	235,153	(95,887)	177,190	177,190	200,529	23,339
Earnings on cash and equivalents	...	...	7,187	7,187	...	...	3,419	3,419
School food services	65,000	65,000	60,250	(4,750)	...	...	68,678	68,678
Other local sources	195,360	195,360	315,449	120,089	81,000	81,000	181,214	100,214
Total revenues	1,519,990	1,519,990	1,561,110	41,120	1,400,660	1,400,660	1,441,613	40,953
EXPENDITURES								
Current:								
Salaries	851,055	851,055	749,715	101,340	785,247	785,247	714,660	70,587
Employment costs	293,822	293,822	262,092	31,730	254,792	254,792	239,345	15,447
Travel	...	...	18,846	(18,846)	...	...	13,898	(13,898)
Contracted services	395,100	395,100	91,394	303,706	358,100	358,100	85,315	272,785
Communications	...	...	7,110	(7,110)	...	...	7,830	(7,830)
Public utility services	...	...	9,210	(9,210)	...	...	7,449	(7,449)
Insurance	...	...	17,885	(17,885)	...	...	15,466	(15,466)
Transportation-buses	...	...	80,296	(80,296)	...	...	75,474	(75,474)
Land/Building/Facilities	...	...	32,465	(32,465)	...	...	18,220	(18,220)
Repairs and maintenance	...	...	7,395	(7,395)	...	...	14,817	(14,817)
Other contractual services	25,000	25,000	103,201	(78,201)	...	...	98,777	(98,777)
Supplies and materials	66,400	66,400	71,198	(4,798)	78,900	78,900	57,939	20,961
Operating supplies	...	...	11,784	(11,784)	...	...	31,994	(31,994)
Computer/Word Processing/Software	...	...	3,351	(3,351)	...	...	1,491	(1,491)
Miscellaneous	1,500	1,500	642	858	1,000	1,000	...	1,000
Capital outlay	16,800	16,800	5,707	11,093	37,700	37,700	6,166	31,534
Total expenditures	1,649,677	1,649,677	1,472,291	177,386	1,515,739	1,515,739	1,388,841	126,898
NET CHANGE IN FUND BALANCES	(129,687)	(129,687)	88,819	218,506	(115,079)	(115,079)	52,772	167,851
FUND BALANCES								
Beginning of year	147,588	147,588	147,588	...	94,816	94,816	94,816	...
End of year	\$ 17,901	\$ 17,901	\$ 236,407	\$ 218,506	\$ (20,263)	\$ (20,263)	\$ 147,588	\$ 167,851

Note: The School's budget is presented on the modified accrued basis of accounting.

Additional Information

EAST SIDE CHARTER SCHOOL
COMBINING STATEMENTS - BALANCE SHEETS - GENERAL FUND
June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
ASSETS								
Cash and equivalents	\$ 8,214	\$ 267,736	\$...	\$ 275,950	\$ 6,226	\$ 161,227	\$...	\$ 167,453
Accounts receivable	...	15,201	...	15,201	...	7,347	...	7,347
Due from other governments	...	4,812	21,052	25,864	...	26,581	...	26,581
TOTAL ASSETS	\$ 8,214	\$ 287,749	\$ 21,052	\$ 317,015	\$ 6,226	\$ 195,155	\$...	\$ 201,381
LIABILITIES								
Accounts payable	\$ 9,840	\$ 8,120	\$ 3,337	\$ 21,297	\$...	\$ 14,717	\$...	\$ 14,717
Accrued salaries and related costs	11,160	28,843	17,715	57,718	...	39,076	...	39,076
Deferred revenue	...	1,593	...	1,593	...	...	...	...
Total liabilities	21,000	38,556	21,052	80,608	...	53,793	...	53,793
FUND BALANCES								
Unrestricted	(12,786)	149,193	...	136,407	6,226	41,362	...	47,588
Unrestricted - Designated for contingencies	...	100,000	...	100,000	...	100,000	...	100,000
Total fund balances	(12,786)	249,193	...	236,407	6,226	141,362	...	147,588
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,214	\$ 287,749	\$ 21,052	\$ 317,015	\$ 6,226	\$ 195,155	\$...	\$ 201,381

EAST SIDE CHARTER SCHOOL
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND
Years Ended June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
REVENUES								
Charges to school districts				\$ 288,445				\$ 309,909
State aid	\$ 654,626	\$ 288,445	\$...	\$ 654,626	\$ 677,864	\$ 309,909	\$...	\$ 677,864
Federal aid	...	...	235,153	235,153	...	...	200,529	200,529
Earnings on cash and equivalents	...	7,187	...	7,187	...	3,419	...	3,419
School food services	...	60,250	...	60,250	...	68,678	...	68,678
Charges for services	...	49,498	...	49,498	...	79,558	...	79,558
Other local sources	...	261,951	...	261,951	...	75,440	...	75,440
Miscellaneous	...	4,000	...	4,000	...	26,216	...	26,216
Total revenues	654,626	671,331	235,153	1,561,110	677,864	563,220	200,529	1,441,613
EXPENDITURES								
Current:								
Salaries	365,707	279,767	104,241	749,715	366,806	246,828	101,026	714,660
Employment costs	127,743	97,287	37,062	262,092	126,569	79,110	33,666	239,345
Travel	1,005	1,712	16,129	18,846	589	485	12,824	13,898
Contracted services	49,146	39,716	2,532	91,394	59,123	26,192	...	85,315
Communications	4,460	2,650	...	7,110	3,454	4,376	...	7,830
Public utility services	3,457	5,753	...	9,210	4,820	2,629	...	7,449
Insurance	17,885	...	...	17,885	15,466	...	...	15,466
Transportation-buses	31,458	48,838	...	80,296	53,834	21,561	79	75,474
Land/Building/Facilities	12,794	19,171	500	32,465	12,944	276	5,000	18,220
Repairs and maintenance	2,186	5,209	...	7,395	9,154	5,663	...	14,817
Other contractual services	39,906	48,779	14,516	103,201	28,231	63,322	7,224	98,777
Supplies and materials	4,456	11,489	55,253	71,198	3,904	16,814	37,221	57,939
Operating supplies	11,784	...	...	11,784	31,994	...	...	31,994
Computer/Word Processing/Software	...	1,645	926	3,351	393	1,098	...	1,491
Miscellaneous	...	642	...	642	...	...	...	...
Capital outlay	871	842	3,994	5,707	867	1,810	3,489	6,166
Total expenditures	673,638	563,500	235,153	1,472,291	718,148	470,164	200,529	1,388,841
NET CHANGE IN FUND BALANCES	(19,012)	107,831	...	88,819	(40,284)	93,056	...	52,772
FUND BALANCES								
Beginning of year	6,226	141,362	...	147,588	46,510	48,306	...	94,816
End of year	\$ (12,786)	\$ 249,193	\$...	\$ 236,407	\$ 6,226	\$ 141,362	\$...	\$ 147,588

Other Reports

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**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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August 5, 2005

Board of Directors
East Side Charter School
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of East Side Charter School, Wilmington, Delaware as of and for the year ended June 30, 2005 and have issued our report thereon dated August 5, 2005. In our report, our opinion was qualified because of the inadequacies in the School's accounting records regarding SuperCard transactions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Side Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financing report that, in our judgment, could adversely affect East Side Charter School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and recommendations as items #04-2, #04-3, #04-4, #05-1, #05-2, #05-3, #05-4, #05-5, #05-6 and #05-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by

Board of Directors
East Side Charter School

error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described in the accompanying schedule of findings and recommendations as items #05-1, #05-3, #05-4, #05-5 and #05-6 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Side Charter School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items #04-4 and #04-5.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

CASH RECEIPTS FUNCTION

04-1 FINDING

During the prior year audit, it was noted that several members of school staff receive cash and checks. It was further noted that on occasion, the functions of cashier and accounting were performed by the same individual.

The State of Delaware Budget and Accounting Policy Manual states that "The handling of cash receipts requires close control in each agency." The Manual further states that the "separation of the functions of cashier and accounting will be observed."

RECOMMENDATION

It was recommended that the School limit the number of personnel authorized to collect cash. It was further recommended that the functions of cashier and accounting be separated.

Status

During our current year audit, we noted that all cash is collected by the secretary, and then handed over to accounting with a reconciliation. This finding is no longer applicable.

FIXED ASSETS - INVENTORY

04-2 FINDING

During the prior year audit, it was noted that although the School maintains an annual inventory, the inventory records do not provide proper identification of assets. Management must ensure that adequate internal controls are in place to protect inventories of items for which there is an inherent risk of loss, theft or misuse. Inventory counts should be taken and reconciled to the perpetual inventory records. Periodic inventories help identify assets that may have been misplaced or misappropriated. Policies and procedures for maintaining an inventory system and addressing the disposal of assets are necessary to decrease the risk of theft or misappropriation. When complete and accurate inventory records are not maintained, the School cannot ensure proper safeguarding, reporting, and accountability of property and equipment.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

RECOMMENDATION

It was recommended that the School establish formal policies and procedures requiring the preparation and maintenance of capital asset inventory records to identify and ensure the accountability of assets. Inventory records should include, at a minimum, the description of the property, serial number (or other identifying number), acquisition date, cost, source, location, condition of property, date of disposal and sale price. Policies and procedures should include discussion of "publicly appealing" and other noncapital asset items for the purpose of safeguarding these items against loss or misuse. It was further recommended that inventories be taken, at a minimum, bi-annually.

Status

During our current year audit, we noted that although assets were recorded with the acquisition date and cost, location is not yet being tracked. This finding is still applicable for the current year.

Corrective Action Plan

The School agrees that location of its fixed assets was not properly recorded in the past. Effective October of 2005, the School instituted a manual inventory log (that will be stored electronically) which records fixed assets with the acquisition date and cost, and location with the School.

Furthermore, the School will verify this fixed assets listing on a quarterly basis to confirm location of its fixed assets and/or make any adjustments deemed necessary to the inventory log.

FIXED ASSETS - POLICIES AND PROCEDURES

04-3 FINDING

During the prior year audit, it was noted that the School has not developed formalized policies and procedures for fixed assets. Written policies and procedures are essential for the efficient control over fixed assets and easily misappropriated/"publicly appealing" assets.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

RECOMMENDATION

It was recommended that the School draft fixed asset policies which are in compliance with State minimum requirements. It was further recommended that the School establish policies for items that are "publicly appealing" but below the capitalization threshold.

Status

This finding is still applicable for the current year.

Corrective Action Plan

Effective immediately, the School's administrative personnel have agreed to implement formalized policies and procedures for fixed assets within the School. Additionally, these formalized policies and procedures will address items that are considered "publicly appealing" but below the capitalization threshold and be in compliance with the State minimum requirements.

CASH DISBURSEMENT FUNCTION

04-4 FINDING

During the prior year audit, it was noted that out of a sample of 25 documents tested, three were not paid within a 30-day time period. The State of Delaware Budget and Accounting Policy Manual states that "the state shall make every effort to issue payment to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services if received after the invoice or bill." Failure to make payment to vendors within 30 days could result in the School incurring interest fees or penalties.

RECOMMENDATION

It was recommended that the School make payment to all vendors within 30 days and, whenever possible, take advantage of all discounts associated with timely payment.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status

During our current year audit, we noted that not all bills were being paid to vendors on a timely manner. This finding is still applicable for the current year.

Corrective Action Plan

The School agrees that all bills have not been paid in a timely manner to their respective vendors in the past. Effective October of 2005, the School has agreed to make all payments to vendors within a 30-day period and, whenever possible, take advantage of all discounts associated with timely payment.

To reach the School's targeted objective, Personnel will monitor the cash disbursement function at the School closely.

REPORTING FUNCTION

04-5 FINDING

During the prior year audit, it was noted that the School did not meet the required reporting deadlines for the FY 2004 bi-annual food reports. According to the Department of Education (DOE), the July through December and January through June reports are due January 31 and July 31, respectively. The School submitted its reports on February 25 and August 24.

RECOMMENDATION

It was recommended that the School submit all reports to the DOE within the established guidelines.

Status

The food reports were not submitted by the required due dates of January 31 and July 31, respectively. This finding is still applicable for the current year.

Corrective Action Plan

The School has agreed to submit all bi-annual food reports to the DOE within a timely manner and closely monitor the deadlines of these reports established by the DOE.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

PAYROLL FUNCTION

04-6 FINDING

During the prior year audit, it was noted that monthly payroll reconciliations between the School's payroll records and the State of Delaware payroll register were not accurate or performed in a timely manner. It was further noted that errors in the reconciliations were not identified during management review. Timely and accurate reconciliations and management review are necessary to ensure the accuracy of payroll reporting and accounting.

RECOMMENDATION

It was recommended that payroll reconciliations be performed in a timely manner. It was further recommended that increased attention be paid to the accuracy of the reconciliations as well as to the management review function.

Status

During our current year audit, we noted that payroll reconciliations were being filled out in a timely manner. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

EXPENDITURES

05-1 FINDING

During our current year audit, we noted that employee signatures were not always present on the request for reimbursement. We further noted that supporting documentation was not all present. The School did not always adhere to the State's Budget and Accounting Manual. Proper approvals are required and supporting documentation must be maintained.

RECOMMENDATION

We recommend that before the checks are signed, the check signers review the disbursement and the required backup in order to ensure authorized expenditures are made.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Corrective Action Plan

The School has agreed that all employee signatures will be provided on any request for reimbursement. Additionally, all supporting documentation will be included and matched with the request for reimbursement before checks are signed to ensure that proper controls have been established.

PETTY CASH - RECONCILIATIONS

05-2 FINDING

During our current year audit, we noted that although reconciliations are prepared from the cash collected, those reconciliations are not always accurate. If they are within a dollar or two, the difference is not investigated. Also, reconciliations are not always handed in timely. Monies are collected by the secretary, and the accounting department may not have any knowledge of those monies until a week or two later. Reconciliations should be prepared timely and differences investigated as outlined in the School's policies and procedures. The School was lax in this reconciliation process.

RECOMMENDATION

We recommend that timely, accurate reconciliations be completed and signed off on a monthly basis.

Corrective Action Plan

Effective October of 2005, the School instituted a system that allows the Administrative Assistant to collect all monies and the accounting department to perform all reconciliations. The School has agreed to perform all reconciliations within a timely manner and, also, investigate any differences noted during the reconciliation process.

Furthermore, the School will ensure that all reconciliations are accurate and signed off on by the appropriate personnel.

CASH RECEIPTS

05-3 FINDING

During our current year audit, we noted that proper documentation did not accompany the cash receipts. The School did not always adhere to the State's Budget and Accounting Manual. In accordance with the State's Budget and Accounting Manual, proper documentation should accompany the cash receipts.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

We recommend that supporting documentation be kept with the cash receipts in order to maintain complete records.

Corrective Action Plan

The School has agreed to maintain all supporting documentation for cash receipts in order to have adequate and complete records.

PETTY CASH - VOUCHERS

05-4 FINDING

During our current year audit, we noted that not all petty cash vouchers contained receipts for purchases. The School did not always adhere to the State's Budget and Accounting Manual. In accordance with the State's Budget and Accounting Manual, proper documentation should accompany the cash receipts. Although petty cash dis-bursements are approved by the Executive Director before payment, if advances are given for materials or supplies, receipts need to be brought back after the purchase.

RECOMMENDATION

We recommend that, if cash must be given in advance, the employee not be issued a second advance if the receipts are not turned in. If the receipts are turned in, then the employee could be issued a second advance. If advances are not necessary, we recommend that petty cash be operated on a reimbursement basis only.

Corrective Action Plan

The School has agreed that the petty cash account will be operated on a reimbursement basis only. Additionally, if cash is issued in advance, the School will ensure that a second advance will not be issued to the employee based on review of support documentation.

SUPERCARD PURCHASES

05-5 FINDING

During our current year audit, we noted that the SuperCard coordinator is responsible for approving applications, facilitating purchases on the SuperCard, reviewing purchases with the Executive Director, reconciling purchases to the PNC bank statement, and preparing and approving IV documents on DFMS. Good controls require a proper segregation of duties. This occurred due to the limited number of staff in the accounting department.

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

We recommend that there be a segregation of duties. If the SuperCard coordinator is making a purchase, the Executive Director needs to sign off on it to show approval. If the Executive Director is making a purchase, a Board member needs to sign off on the purchase, noting approval.

Corrective Action Plan

Effective October of 2005, the School has agreed that the SuperCard Coordinator will no longer be involved in making purchases. Two cards will be utilized by the School to make purchases, and they will be assigned to the Administrative Assistant and the Executive Director. If the Administrative Assistant is making a purchase, the Executive Director will sign off on it to show approval. If the Executive Director is making a purchase, a Board member (not employed by the School) will sign off on the purchase, noting approval.

SUPERCARD APPROVAL

05-6 FINDING

During our current year audit, we noted that although SuperCard purchases are to be accompanied by receipts, not all receipts were present. In accordance with the State's Budget and Accounting Manual, supporting documentation must be maintained to support the expenditure. Having receipts ensures complete records and a lower risk of fraud. We tested the months of June and December 2004 totaling 27 transactions, for which 18 had receipts. In addition, the Office of Auditor of Accounts carried out testing for the months of July through September 2004. Following is a chart of our findings which also includes the results of the AOA's testing.

Month 2004	Transactions	Receipt	No Receipt	Total Value	Value with Receipts	Value without Receipts
Results of Auditors' Findings						
June	13	6	7	\$ 2,453	\$ 867	\$ 1,586
December	14	12	2	\$ 7,351	\$ 7,081	\$ 270
Results of AOA Findings						
July	37	15	22	\$16,940	\$ 4,623	\$12,317
August	47	29	18	\$23,800	\$10,835	\$12,965
September	24	14	10	\$ 3,683	\$ 1,681	\$ 2,002

EAST SIDE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

We recommend that all receipts be present to provide backup for all SuperCard transactions.

Corrective Action Plan

The School has agreed to maintain all supporting documentation (receipts) to back up all SuperCard transactions. Additionally, files will be established and stored in the business office of the School to ensure the completeness of records and lower the risk of fraud.

NON-UTILIZATION OF TECHNOLOGY

05-7 FINDING

During our current year audit, we noted that East Side Charter School does not utilize PNC's software WORKS to manage the SuperCard program. This software is being provided to improve controls in utilizing the SuperCard and is available to all agencies and divisions to facilitate the effective and efficient management of the SuperCard program.

RECOMMENDATION

We recommend that procedures be put into place in order to utilize the WORKS program to manage the SuperCard program.

Corrective Action Plan

The School has agreed to put procedures into place to utilize the WORKS program to assist in the management of the SuperCard program.

The School's IT Department will review implementation of this program once the School has been established in its new location.